

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE WESTERN DISTRICT OF TEXAS
SAN ANTONIO DIVISION**

**In re:
PALMAZ SCIENTIFIC INC.,
Debtor.**

CASE NO. 16-50552
Chapter 11

**In re:
ADVANCED BIO PROSTHETIC
SURFACES, LTD.,
Debtor.**

CASE NO. 16-50555
Chapter 11

**In re:
ABPS MANAGEMENT, LLC,
Debtor.**

S S S S S S S

CASE NO. 16-50556
Chapter 11

**In re:
ABPS VENTURE ONE, LTD.,
Debtor.**

§§§§

CASE NO. 16-50554
Chapter 11

(Jointly Administered Under 16-50552)

**PALMAZ SCIENTIFIC, INC.'S, ADVANCED BIO PROSTHETIC SURFACES, LTD.'S,
ABPS MANAGEMENT, LLC'S AND ABPS VENTURE ONE, LTD.'S FIRST AMENDED
JOINT DISCLOSURE STATEMENT, AS MODIFIED, FOR JOINT PLAN OF
REORGANIZATION PURSUANT TO SECTION 1125 OF THE BANKRUPTCY CODE**

DATED: June 10, 2016
SAN ANTONIO, TEXAS

Respectfully submitted,

LAW OFFICES OF WILLIAM B. KINGMAN, P.C.
4040 Broadway, Suite 450
San Antonio, Texas 78209
Telephone: (210) 829-1199
Facsimile: (210) 821-1114

By: /s/ William B. Kingman

William B. Kingman, State Bar No. 11476200
COUNSEL FOR THE DEBTORS

NOTICE: THIS DISCLOSURE STATEMENT HAS BEEN APPROVED BY THE BANKRUPTCY COURT FOR USE IN THE SOLICITATION OF ACCEPTANCES OF THE DEBTORS' PLAN OF REORGANIZATION. THE DISCLOSURE STATEMENT CONTAINS IMPORTANT INFORMATION THAT MAY BEAR UPON YOUR DECISION TO ACCEPT OR REJECT THE PLAN PROPOSED BY THE DEBTOR. PLEASE READ THIS DOCUMENT WITH CARE.

DISCLOSURE STATEMENT

I. **INTRODUCTION**

A. Identity of Debtors

On March 4th, 2016, Debtors Palmaz Scientific, Inc., Advanced Bio Prosthetic Surfaces, Ltd., ABPS Management, LLC and ABPS Venture One, Ltd. filed voluntary petitions pursuant to Chapter 11 of Title 11 of the United States Code (the "Code") with the United States Bankruptcy Court for the Western District of Texas, San Antonio Division. On March 9th, 2016, the Bankruptcy "Court entered an order approving the joint administration of these bankruptcy proceedings. Palmaz Scientific, Inc., Advanced Bio Prosthetic Surfaces, Ltd., ABPS Management, LLC and ABPS Venture One, Ltd. are collectively referred to herein as the "Debtors".

B. Sophisticated Nature of Creditors and this Disclosure Statement.

The Debtors' plan of reorganization (the "Plan") deals with the payment of debt held by highly sophisticated Creditors and parties-in-interest, and for that reason, the Debtors consider the Creditors as sophisticated investors and has included information concerning operations, values and other analysis intended to furnish financial and legal information which should be reviewed only after each Creditor has a complete understanding of the Plan.

C. Important Plan Definitions/Explanations.

The Plan contains numerous definitions found in Article I of the Plan. These terms are generally capitalized to indicate that they are defined terms. Such definitions include explanations which are enforceable as the terms of the Plan. Reference should be made to the definition section. Several of these definitions are explained throughout this Disclosure Statement; however, such explanation is not intended as a substitute for a full and complete reading and understanding of the definitions. Emphasis is placed on these definitions as they are an integral part of the Plan.

D. Nature and Purpose of this Disclosure Statement

Pursuant to §1125 of the Code, the Bankruptcy Court for the Western District of Texas, San Antonio Division, the Honorable Craig A. Gargotta presiding, (the "Court") may approve this Disclosure Statement for submission to the holders of claims against the Debtors. The purpose of this Disclosure Statement is to provide such information as the Bankruptcy Court deems material and necessary for the creditors, investors and other parties in interest to make a reasonably informed decision in exercising their right to vote for acceptance or rejection of the Debtors' First Amended Joint Plan of Reorganization (the "Plan"). A copy of the Plan has been filed with the Court and is incorporated herein for all purposes. A copy of the Plan is available

for review at the United States Bankruptcy Clerk's office in San Antonio, Texas or is available upon written request from the Debtors' counsel. Please note that, if there are any inconsistencies in the provisions of the Plan and this Disclosure Statement, the provisions of the Plan control.

The Court's approval means that this statement contains adequate information. Such approval does not constitute a judgment by the Court as to the desirability of the Plan or as to the value of any consideration offered thereby. Interested parties are referred to 11 U.S.C. §1125 which reads, in part:

"... (b) An acceptance or rejection of a plan may not be solicited after the commencement of the case under this title from a holder of a claim or interest with respect to such claim or interest unless, at the time of or before such solicitation, there is transmitted to such holder the plan or a summary of the plan, and a written disclosure statement approved, after notice and a hearing, by the court as containing adequate information. The court may approve a disclosure statement without a valuation of the debtor or an appraisal of the Debtors' assets ..."

"(d) Whether a disclosure statement...contains adequate information is not governed by any otherwise applicable non-bankruptcy law, rule, or regulation, but an agency or official whose duty is to administer or enforce such a law, rule, or regulation may be heard on the issue of whether a disclosure statement contains adequate information. Such an agency or official may not appeal from an order approving a disclosure statement..."

"(e) A person that solicits acceptance or rejection of a plan, in good faith and in compliance with the applicable provisions of this title, or that participates, in good faith and in compliance with the applicable provisions of this title, in the offer, issuance, sale, or purchase of a security, offered or sold under the plan, of the debtor, of an affiliate participating in a joint plan with the debtor, or of a newly organized successor to the debtor under the plan, is not liable, on account of such solicitation of participation, for violation of any applicable law, rule, or regulation governing solicitation of acceptance or rejection of a plan or the offer, issuance, sale, or purchase of securities."

E. Nature of Chapter 11 of Title 11 of the United States Code

Chapter 11 of the Bankruptcy Code was designed by Congress to allow a financially troubled debtors to attempt to reorganize and restructure his, her or its debts. Chapter 11 contemplates allowing the Debtors or their creditors or other parties to prepare a Plan of Reorganization which provides for the Debtors' payment of all or part of its debts over a specified period of time. After the Plan is filed and the Disclosure Statement is approved, the creditors are given an opportunity to accept or reject the Plan. If the requisite number of creditors approve the Plan and/or the Court deems the Plan to be confirmable pursuant to §1129 of the Code, then the reorganized Debtor then pays all or a portion of its debts pursuant to the terms of the Plan.

F. Process of Confirmation

1. The Hearing.

The Bankruptcy Court has set a hearing on the confirmation of the Plan for June 27th, 2016 at 1:30 p.m. CDT.

2. Requirements of Plan Confirmation.

Because all creditors with Allowed Claims will be paid in full and are not impaired by the plan, creditors are not entitled to vote on the Plan.

However, equity interest holders are entitled to vote on the Plan. Upon an equity interest holders' receipt of the Court approved Disclosure Statement and a copy of the Plan attached hereto, such equity interest holder is urged to fill in, date, sign and promptly mail or email the enclosed ballot which the Debtor will be furnishing to you. PLEASE BE SURE TO PROPERLY COMPLETE THE BALLOT AND IDENTIFY THE NAME OF THE CLAIMANT.

The Debtors or others may solicit votes after the disclosure statement is approved. The cost of any solicitation by the Debtor will be borne by the Debtor. No representative of the Debtors, other than its attorney, shall receive any additional compensation for any solicitation.

3. Cramdown.

If the Plan is rejected by the equity interest holders, the Plan or a modification thereof may still be confirmed by the Court if the Court determines, among other federal requirements, that the Plan does not discriminate unfairly and is fair and equitable with respect to the rejecting Class.

G. Voting Procedures and Requirements

1. Ballots and Voting Deadline

In addition to this Disclosure Statement and a copy of the Plan, each Creditor entitled to vote will be provided with a ballot to be used for voting to accept or reject the Plan, together with a postage paid return envelope.

In order to be counted for voting purposes, ballots for the acceptance or rejection of the Plan must be completed and returned to the Debtors' noticing agent before **3:00 p.m. CDT on June 24th, 2016.** Furthermore, any creditor or party in interest desiring to object to the Plan must do so by filing a written objection in the United States Bankruptcy Clerk's office at 615 E. Houston, Room 148, San Antonio, TX 78205 before **3:00 p.m. CDT on June 24th, 2016.** Such written objection must also be served on Debtors', counsel.

Whether the Equity Interest Holder entitled to vote expects to be present at the hearing, each Equity Interest Holder is urged to complete, date, sign and properly mail the ballot to the

following address:

Palmaz Ballot Processing
c/o UpShot Services LLC
8269 E 23rd Ave, Suite 275
Denver, CO 80238

An Equity Interest Holder can also send the ballot by email to Palmazinfo@upshotservices.com.

2. Definition of Impairment

Under Section 1124 of the Bankruptcy Code, a class of Claims or equity security interests is impaired under a Chapter 11 plan unless, with respect to each Claim or interest of such Class, the Plan:

1. Leaves unaltered the legal, equitable, and contractual rights of the holder of such Claim or equity security interest; or
2. Notwithstanding any contractual provision or applicable law that entitles the holder of a Claim or equity security interests to receive accelerated payment of his Claim or equity security interests after the occurrence of default:
 - a. Cures any such default that occurred before or after the commencement of the case under the Bankruptcy Code, other than a default that consists of a breach of any provision relating to the insolvency or financial condition of the Debtors at any time before the closing of the case, the commencement of a case under the Bankruptcy Code, or the appointment of or taking possession by a trustee in a case under the Bankruptcy Code;
 - b. Reinstates the maturity of such Claim or equity security interest as it existed before the default;
 - c. Compensates the holder of such Claim or equity security interest for damages incurred as a result of reasonable reliance on such contractual provision or applicable law; and
 - d. Does not otherwise alter the legal, equitable, or contractual rights to which such Claim or equity security interest entitles the holder of such Claim or equity security interest; or
3. Provides that, on the Plan Effective Date, the holder of such Claim or equity security interest, receives, on account of such Claim or equity security interest, cash equal to:
 - a. With respect to a Claim, the allowed amount of such Claim; or

b. With respect to an equity security interest, if applicable, the greater of:

(i) Any applicable fixed liquidation preference;
or

(ii) Any fixed price at which the debtor, under the terms of the security, may redeem the security.

3. Class Impaired Under the Debtors' Plan

Class 5, consisting of the Equity Interest Holders, is impaired under the Plan. The Equity Interest Holders in are entitled to vote to accept or reject the Plan:

Classes 1 through 4 are unimpaired under the Plan. The unimpaired Classes, therefore, are not entitled to vote with respect to the acceptance or rejection of the Plan and are deemed to accept the Plan

II.
REPRESENTATIONS

A. Disclaimers

1. NO REPRESENTATIONS CONCERNING THE DEBTORS OR THE PLAN OF REORGANIZATION ARE AUTHORIZED BY THE DEBTORS OTHER THAN AS SET FORTH IN THIS DISCLOSURE STATEMENT. ANY REPRESENTATIONS OR INDUCEMENTS MADE BY ANY PERSON TO SECURE YOUR VOTE WHICH ARE OTHER THAN HEREIN CONTAINED SHOULD NOT BE RELIED UPON AND SUCH REPRESENTATIONS OR INDUCEMENTS SHOULD BE REPORTED TO COUNSEL FOR THE DEBTORS, WHO SHALL DELIVER SUCH INFORMATION TO THE BANKRUPTCY COURT.

2. THE COURT'S APPROVAL OF THE DISCLOSURE STATEMENT DOES NOT CONSTITUTE AN ENDORSEMENT OF ANY OF THE REPRESENTATIONS CONTAINED IN EITHER THE DISCLOSURE STATEMENT OR THE PLAN, NOR DOES IT CONSTITUTE AN ENDORSEMENT OF THE PLAN ITSELF.

III.
**BACKGROUND INFORMATION ON DEBTOR AND THE PLAN
AND THE NATURE AND HISTORY OF THE DEBTOR**

A. Financial History and Background of the Debtor

Palmaz Scientific is a research and development corporation formed in Delaware in 2008 and dedicated to the advancement of the technology and science of medical implants. Palmaz

Scientific's corporate headquarters is at 18618 Tuscan Stone, Suite 100, San Antonio, Texas, 78258. Palmaz Scientific's research and development operations are at 3065 Skyway Court, Fremont, California, 94539. Palmaz Scientific is owned by over 300 shareholders.

Palmaz Scientific has three direct affiliates: Advanced Bio Prosthetic Surfaces, Ltd. ("ABPS"), ABPS Venture One, Ltd. ("Venture One") and ABPS Management, LLC ("ABPS Management"). Palmaz Scientific is the 100% member owner of ABPS Management. ABPS Management serves as the General Partner and one percent limited partner in ABPS. Palmaz Scientific owns the remaining 99% limited partnership interest in ABPS. Palmaz Scientific owns an 80% member interest in Venture One. The other 20% of Venture One is owned by Dr. Steve Bailey.

Palmaz Scientific believes its most valuable assets are (i) its own patent portfolio, (ii) its ownership of ABPS with ABPS's valuable patent portfolio, (ii) its specialized equipment and tools, and (iii) its remaining key employees, who are essential to the ability of any buyer to quickly and efficiently benefit from Palmaz Scientific's extensive patent portfolio.

Together Palmaz Scientific and its affiliates own 256 issued United States and international patents and 182 active U.S. and international pending patent filings on its technologies including thin-film technologies and physical vapor deposition process innovations to produce more reliable implantable prosthetic devices. Palmaz Scientific, however, has not yet created a medical device for mass production. The extensive intellectual property portfolio is the foundation for a technology platform with many potential implantable medical devices, including stents that address coronary, peripheral and intracranial indications as well as implantable devices in orthopedic and cosmetic prosthetic specialties.

Palmaz Scientific owns highly specialized equipment valued at approximately \$1.8 million on its books.

Palmaz Scientific raised capital by selling nearly \$50,000,000.00 in equity interests to fund its operations. When it had revenue, Palmaz Scientific's sources of revenue were from joint development agreements or other partnering agreements. Prior to the initiation of these cases, Palmaz Scientific had no current source of revenue.

In November 2015, Palmaz Scientific issued a Confidential Private Placement Memorandum in an effort to raise additional operational and research funds, but was unsuccessful. Palmaz Scientific's ability to raise new capital to fund business operations was seriously disrupted over the past 18 months by litigation brought against Palmaz Scientific in Dallas, Texas. Palmaz Scientific has brought counterclaims in that litigation, which assert that the plaintiffs have spread false and disparaging information about Palmaz Scientific. Additionally, the counterclaims assert that false information was intentionally disseminated to current investors, potential business partners, the press, and even federal government authorities -- resulting in substantial damages -- essentially crippling Palmaz Scientific's ability to maintain its ongoing operations. In its counterclaims, Palmaz Scientific asserts the defamation irreparably harmed it and caused it millions of dollars in damages.

In light of its inability to raise additional capital, and the additional burden of pending litigation, Palmaz Scientific concluded that it should seek to sell all or substantially all of its assets in connection with a case under chapter 11.

B. Operations in Chapter 11

Since the initiation of the cases, the Debtors have explored the possibility of selling the Debtors' assets. In connection therewith, the Debtors employed, with Court approval, Gerbsman Partners to assist in marketing the assets to third parties. In addition, the Debtors have negotiated an agreement for Vactronix Scientific, Inc., a creditor of Palmaz Scientific, Inc. and owned directly or indirectly by an insider of the Debtors, to act as a "stalking horse" bidder for the assets. Through the marketing and auction process, third party bidders will have the opportunity to bid greater than Vactronix' \$22,600,000.00 stalking horse bid (which is in the form of cash and a credit bid). Although someone appeared at the June 8th, 2016 Disclosure Statement hearing and made an oral offer for one asset, no third party bidder qualified to bid pursuant to the Court approved bid procedures. The auction of the Debtors' assets and the final hearing on the approval of the sale are set for June 10th, 2016. After consummation of the sale (which the Debtors anticipate to occur on or as soon after the Plan's Effective Date as possible, the proceeds of the sale will be distributed to the creditors pursuant to the terms of the Plan.

In order for the Debtors to meet their obligations through June 15th, 2016, Vactronix Scientific, Inc. agreed to provide a total of \$1,600,000.00 of post-bankruptcy financing to the Debtors. Such 1,600,000.00 in post-petition financing is part of Vactronix Scientific, Inc.'s stalking horse bid described above.

C. Future Income and Expenses under the Plan

Because the Debtors intend to sell all of its assets pursuant to Court order with any remaining assets being contributed to a Litigation Trust created for the benefit of the Debtors' equity interest holders, the Debtors do not anticipate receiving any additional income after the Plan is confirmed and will only incur the expense of winding down the entities. Such expenses will include paying its accountant to prepare and file final tax returns and paying its counsel for assisting in the dissolution.

Assuming that the sale of assets is consummated and the Plan is confirmed, the Debtors will certainly pay the creditors with allowed claims much sooner than if they had to wait for a Chapter 7 trustee to liquidate all assets, fully administer the bankruptcy estate and then make distributions to creditors.

D. Future Management of Debtors' Business

Because of the sale of the Debtors' assets, there will be no future management of the Debtors' current operations; however, as set forth above, Dr. Eugene Sprague will supervise the distribution of funds to creditors under the Plan and the dissolution of the entities.

E. Accounting Method and Source of Financial Information

The accounting method used by the Debtors is the cash method. The financial information submitted in connection herewith was compiled by Palmaz Scientific's representatives from the Debtors' business records and monthly operating reports filed in the Case.

IV.

ANALYSIS AND VALUATION OF PROPERTY

A. Schedule of Assets, Value Listed in Debtors' Schedules, Current Market Value and Lienholder Information

The Debtors' respective schedules on file in this proceeding reflect Debtors' assets. The \$22,600,000.00 stalking horse bid described above is the current, best indication of the market value of such assets. However, through the auction process, an increased value might be realized, although no other bidders timely registered to bid.

Currently, Vactronix Scientific, Inc. asserts a first priority security interest in the Debtors' assets; however, the validity, priority and extent of such security interest are subject to dispute. However, pursuant to Exhibit "A" attached hereto (the May 20th, 2016 Term Sheet for Chapter 11 Plan between Vactronix Scientific, Inc. the Debtor, the Unsecured Creditors' Committee and two of Palmaz Scientific, Inc.'s shareholders), that issue shall be settled upon confirmation of the Plan.

B. Liquidation Analysis

If this case were converted to a Chapter 7 proceeding, the Debtors do not believe that the unsecured creditors would receive all of their allowed claims since a bankruptcy trustee would not sell the entities' assets as a "going concern". However, if the Debtors are allowed to continue to operate until the Plan is confirmed and consummated and the sale is closed, the Debtors believe that all unsecured creditors with Allowed Claims will be at paid in full and the equity interest holders will receive distributions from the Litigation Trust. Moreover, assuming that the sale of assets is consummated and the Plan is confirmed, the Debtors will certainly pay the creditors with allowed claims much sooner than if they had to wait for a Chapter 7 trustee to: (a) liquidate all assets, (b) complete all litigation (including claims relating to the validity and priority of liens), (c) fully administer the bankruptcy estate and (d) then make distributions to creditors and possibly equity holders.

C. Source and Basis of Valuation Analysis

The market value of all of the Debtors' assets (including such furniture, fixtures and equipment) that are being sold will be determined through the auction process described above. Because of the uncertainty, time and cost of litigation, the Debtors cannot assess the value of the causes of action being contributed to the litigation trust. However, it should be noted that, in the Akin Gump/ Baker Botts litigation, the Debtors have asserted a claim in excess of

\$10,000,000.00. Furthermore, as set forth in the Plan, it is likely that the litigation trust will pursue claims against some former officers and directors of the debtors, such claims potentially being covered by up to \$20,000,000.00 in insurance coverage that the Debtors believes to currently be in effect (as set forth in Exhibit "B" attached hereto). Finally, there may be other transactions that occurred prior to the initiation of the bankruptcy proceedings that are voidable and that might benefit the litigation trust beneficiaries. However, needless to say, the defendants in all of the above-described litigation or potential litigation deny or will deny any liability for any claims.

V. **SUMMARY OF PLAN OF REORGANIZATION**

The Plan will be provided upon request to all Creditors and Equity Interest Holders. The Plan should be read carefully and independently of this Disclosure Statement. The following summary is not intended as a substitute for reading the Plan.

The Plan is simple in concept. The Plan provides for the satisfaction of the Allowed Claims of all Creditors. However, only Allowed Claims will receive the treatment and distributions specified in the Plan. Under the Plan, the Creditors will receive distributions in the form of cash on and/or after the Initial Distribution Date.

With respect to filing and allowance of Claims, all Claims assertable and arising prior to the Petition Date and all Claims assertable and arising during the Case, excluding Rejection Claims and Administrative Claims incurred for Professional Fees, shall be Allowed Claims, unless the Court disallowed by the Court after notice and opportunity for hearing. If a Claimant has already filed a Proof of Claim with the Bankruptcy Clerk, another Proof of Claim need not be filed by such Claimant, unless such previously filed Proof of Claim does not state the total dollar amount of indebtedness owed to such Claimant, including, without limitation, penalties and/or interest on such Claim. Claims filed pursuant to assumption or rejection of Executory Contracts should also refer to Section VI of the Plan for special requirements regarding their Claims. The Debtor reserves the right to dispute, or assert offsets or defenses against any Claims as to amount, liability or status.

Furthermore, all Administrative Claims in the Case: (i) for Professional Fees under Section 330 of the Bankruptcy Code, including, but not limited to attorneys' and accountants' fees, and for any other administrative expenses which arose on or before the Confirmation Date shall be filed with the United States Bankruptcy Clerk in Austin, Texas within ninety (90) days after the Effective Date.

A. Summary of Classes and Estimation of Administrative Claims and Scheduled Claims

1. Unclassified Claims, including Administrative Claimants and Priority Tax Claims: Creditors holding Allowed Administrative Claims relative to the Case, including professional fees, post-petition, court approved indebtedness and the U.S. Trustee's Claim for allowed fees-Estimated Amount of Administrative Claims-\$1,750,000.00.

Administrative Expense Claims and Priority Tax Claims are not classified for purposes of voting or receiving distributions under the Plan, pursuant to section 1123(a)(1) of the Bankruptcy Code. Instead, all such Claims shall be treated separately as unclassified claims on the terms previously set forth in Article II of this Plan.

2. All Claims against, and Equity Interests in, the Debtor are classified for all purposes, including voting, confirmation, and distribution, pursuant to the Plan as follows:

Class	Designation	Estimated Amount	Entitled to Vote
Class 1	Priority Non-Tax Claims	\$0.00	No (deemed to accept)
Class 2	Vactronix DIP Claim	\$1,600,000.00	No (deemed to accept)
Class 3	Assumed Secured Claims	\$10,484,00.00	No (deemed to accept)
Class 4	General Unsecured Claims	\$10,400,000.00	No (deemed to accept)
Class 5	Equity Interests		Yes

Attached hereto as Exhibit "C" is a list of the proposed, Allowed Priority, Unsecured and Assumed Unsecured Claims that, based upon the Debtor's records and the Court's Claim Register, Vactronix believes is accurate. Vactronix has filed an omnibus objection to Proofs of Claims filed by Equity Interest Holders to have them reclassified as Proofs of Interest. Vactronix is not paying nor is it assuming any claims related to Equity Interests Holders.

Treatment of Classes

1. Unclassified Claims

(a) Administrative Expense Claims.

All Administrative Expense Claims against the Debtor shall be treated as follows:

(1) Time for Filing. All holders of Administrative Expense Claims, other than Professional Persons holding Fee Claims, shall file with the Bankruptcy Court a request for payment of such Claims within thirty (30) days after the Effective Date. Any such request must be served on the Debtor, its counsel and counsel to the Committee and all parties requesting notice in the Bankruptcy Case, and must, at a minimum, set forth (i) the name of the holder of the Administrative Expense Claim; (ii) the amount of the Administrative Expense Claim; and (iii) the basis for the Administrative Expense Claim. A failure to file any such request in a timely fashion will result in the Administrative Expense Claim in question being discharged and its holder forever barred from asserting such Administrative Expense Claim against the Debtor or the Litigation Trust.

(2) Allowance. An Administrative Expense Claim for which a request for payment has been properly filed shall become an Allowed Administrative Expense Claim unless an objection is filed by the date that is thirty (30) days after a request for payment of such Administrative Expense Claim is filed. If an objection is timely filed, the Administrative Expense Claim in question shall become an Allowed Administrative Expense Claim only to the extent so Allowed by Final Order of the Bankruptcy Court.

(3) Payment. Except to the extent that a holder of an Allowed Administrative Expense Claim agrees to a different treatment of such Claim, each holder of an Allowed Administrative Expense Claim shall receive, on account of and in full satisfaction of such Claim, Cash from the proceeds of the Asset Sale in an amount equal to the Allowed amount of such Administrative Expense Claim on (or as soon as reasonably practicable after) the later of (A) the Effective Date or (B) fifteen (15) days after such Administrative Expense Claim becomes Allowed by Final Order.

(b) Fee Claims.

Every Professional Person holding a Fee Claim that has not previously been the subject of a final fee application and accompanying Bankruptcy Court order shall file a final application for payment of fees and reimbursement of expenses no later than the date that is thirty (30) days after the Effective Date. Any such final fee application shall conform to and comply with all applicable provisions of the Bankruptcy Code, the Bankruptcy Rules, and the Local Rules. The last date to object to any final fee application shall be the twenty-fourth (24th) day after such fee application has been filed with the Bankruptcy Court. Allowed Fee Claims shall be paid in full in Cash from proceeds of the Asset Sale on (or as soon as reasonably practicable after) the later of (A) the Effective Date or (B) fifteen (15) days after entry of an order by the Bankruptcy Court allowing such Fee Claim.

(c) Priority Tax Claims.

Except to the extent that a holder of an Allowed Priority Tax Claim has agreed or agrees to a different treatment of such Claim, each holder of an Allowed Priority Tax Claim shall receive on (or as soon as reasonably practicable after) the Effective Date, Cash in an amount equal to the Allowed amount of such Claim. To the extent interest is required to be paid on any Priority Tax Claim, the rate of such interest shall be the rate determined under applicable nonbankruptcy law, as set forth in section 511 of the Bankruptcy Code. To the extent the holder of an Allowed Priority Tax Claim has a Lien on the Debtor's property, such Lien shall remain in place until such Allowed Priority Tax Claim has been paid in full.

Any Allowed Claim owed by the Debtors to the Internal Revenue Service ("IRS") is a non-dischargeable debt, except as otherwise provided for in the Code, and that if the Debtors default, the IRS is not subject to the provisions of the Bankruptcy Code so that the IRS can take whatever actions are necessary to collect said debt in the event of default; the federal tax liens survive the plan confirmation, a bankruptcy discharge, and dismissal of the case. The Liens continue to be enforceable against all of the debtor's property under federal law. The Debtors believe the IRS is not currently owed any amounts by the Debtors.

A failure by the Debtors to make a payment to the IRS pursuant to the terms of the Plan and/or failure to remain current on filing and paying post-confirmation taxes, shall be an event of default, and as to the IRS, there is an event of default if payment is not received by the 15th day of each month. If there is a default, the IRS must send written demand for payment, and said payment must be received by the IRS within 15 days of the date of the demand letter. The Debtor can receive up to three notices of default from the IRS; however, on the third notice of default from the IRS the third notice cannot be cured, and the IRS may accelerate its allowed claim(s), past and future, and declare the outstanding amount of such claim(s) to be immediately due and owing and pursue any and all available state and federal rights and remedies. These default provisions pertain to the entire claim(s) of the IRS, secured, unsecured priority and unsecured general.

The IRS is bound by the provisions of the confirmed plan and is barred under 11 USC 1141 from taking any collection actions against the debtors for prepetition claims during the duration of the Plan (provided there is no default as to the IRS). The period of limitations on collection remains suspended under 26 USC 6503 (h) for the tax periods being paid under the Plan and terminates on the earlier of (1) all required payments to the IRS have been made; or (2) 30 days after the date of the demand letter (described above) for which the debtor failed to cure the default.

2. Unimpaired Classes

Class 1 – Priority Non-Tax Claims.

Except to the extent that a holder of an Allowed Priority Non-Tax Claim against the Debtor agrees to a less favorable treatment, each such holder shall receive, in full satisfaction of such Claim, payment in full in Cash on (or as soon as reasonably practicable after) the later of (A) the Effective Date or (B) fifteen (15) days after such Priority Non-Tax Claim becomes Allowed.

Class 2 – Vactronix DIP Claim.

The Vactronix DIP Claim shall be deemed paid in full through its Stalking Horse bid at the Asset Sale. The Vactronix DIP Claim is not subject to dispute or objection.

Class 3 - Assumed Secured Claims.

On or before 30 days following the Effective Date (or as soon as reasonably practicable thereafter), except to the extent that a holder of an Allowed Assumed Secured Claims agrees to less favorable treatment, Allowed Assumed Secured Claims shall be deemed paid in full through its Stalking Horse bid at the Asset Sale. The Assumed Secured Claims are not subject to dispute or objection.

Class 4 – General Unsecured Claims.

On or before 30 days following the Effective Date (or as soon as reasonably practicable thereafter), except to the extent that a holder of an Allowed General Unsecured Claim agrees to

less favorable treatment in writing, each holder of an Allowed General Unsecured Claim shall receive one of the following treatments: (i) in the event Vactronix is not the Purchaser, Allowed General Unsecured Claims shall be paid in full in Cash, with post-petition interest from the Petition Date through the date of payment, from proceeds from the Asset Sale; or (ii) (x) in the event Vactronix is the Purchaser, Vactronix shall assume all rights and obligations with respect to the Assumed Unsecured Claims and such Assumed Unsecured Claims shall be deemed satisfied in full by the Debtors, and (y) all Allowed General Unsecured Claims, which are not Assumed Unsecured Claims, shall be paid in full in Cash, with post-petition interest from the Petition Date through the date of payment, from proceeds from the Asset Sale. Interest shall be paid to Allowed General Unsecured Claims at the greater of: (i) the interest rate provided for in the contract between each such Creditor and the Debtor, or (ii) the federal judgment rate.

Notwithstanding the foregoing, Vactronix shall not be required to satisfy any claim arising from rescission of a purchase or sale of a security of the debtor or of an affiliate of the debtor or for damages arising from the purchase or sale of such a security, or for reimbursement or contribution allowed under section 502 on account of such a claim.

2. Impaired Class The Equity Interest Holders holding an Equity Interest in Class 5 are impaired and will be entitled to vote to accept or reject their respective treatment under the Plan. The Interests of holders of Allowed Equity Interests shall be processed, liquidated and paid pursuant to the terms and provisions of the Litigation Trust Agreement and the Plan. For more specificity of the treatment, please refer to the attached Term Sheet and Section 6.6 of the Plan.

It should be noted that the Insider Equity Interest Holders shall not receive any net proceeds from the litigation asserted against former directors and officers. Furthermore, despite owning or controlling twenty nine percent (29%) of the Equity Interests, the Insider Equity Interest Holders will only receive fifteen percent (15%) of the net proceeds of the Avoidance Actions, (ii) the Akin Gump Case (iii) the Contributed Causes of Action, (iv) any and all other claims and causes of action owned by the Estates, other than the Harriman Case

In addition, as set forth in the Plan, The Debtors and their Estates and all Equity Interest Holders who do not specifically opt out of such release by checking a box on the ballot provided in connection with voting on the Plan, on their own behalf and on behalf of any of their respective past, present, and future parents, stockholders, subsidiaries, affiliates, divisions, related entities, successors, assigns, partners, officers, directors, members, managers, employees, agents, servants, representatives, attorneys, insurers, trustees, receivers, predecessors-in-interest, successors-in-interest, and all persons or entities acting by, through or in concert with any of them, in each case, acting in such capacities, shall forever and irrevocably release, absolve, and fully discharge Vactronix, all Non-Insider Equity Holders, Oak Court Partners, Ltd., its partners and affiliates, Palmaz and his wife, Amalia Palmaz individually and Dr. Eugene Sprague from any and all acts, omissions, representations, promises, duties, obligations, claims, complaints, petitions, allegations, suits, causes of action, actions, disputes, damages, losses, liabilities, expenses, fees, costs, and demands of any kind whatsoever in law, equity, or otherwise, whether known or unknown, that each such Party has, had or may have arising out of or relating to in any manner to any D&O Claims of the Debtor except to the extent there are D&O Insurance Policies available to such officers and directors for such Loss at the time the Debtors or the Litigation Trust attempt to collect such Loss. Specifically without waiving any rights to avail itself of the Stowers Doctrine, Debtors and the Litigation Trust will limit their enforcement of recovery for

causes of action against Directors and Officers to the amounts, if any, that the insurance company pays, or is required to pay, on its obligations to Debtors or the Litigation Trust.

Regardless of the foregoing release and exculpation, Dr. Palmaz and Dr. Sprague may nonetheless be named in any D&O Claims commenced by the Trustee as may be necessary to enable the Trustee to plead and recover under and pursuant to the D&O Insurance; provided that no recovery on any claims asserted in the D&O Claims may be sought from any assets of Dr. Palmaz or Dr. Sprague. Nothing in this Plan shall waive, release, exculpate or limit any Person from any claims for criminal liability, gross negligence or willful misconduct. Regardless of the foregoing release and exculpation, nothing in this Plan shall waive, release or limit any claims or liability asserted in the Harriman Case.

Nothing in the Plan or Confirmation Order is intended to, or shall be construed as restricting or otherwise limiting the United States Securities and Exchange Commission from performing its statutory duties with respect to any person or entity in any forum, including a non-bankruptcy forum, pursuant to otherwise applicable law.

C. Operation and Means for Implementation of the Plan

The Debtors will be hereby empowered to take such actions as may be required to effect the Plan, and shall execute such documents, as may be reasonable and necessary to consummate the Plan.

1. Cash Distributions Under the Plan:

1.01 The Debtors, in their sole discretion and pursuant to the terms of the Plan, will make the first transfers and distributions required by the Plan as set forth in Article IV and VI or as otherwise provided by order of the Court. No distribution or transfer shall be made, however, which would result in any Creditor receiving more than is specifically provided for in this Plan. The Debtors will be empowered to take such actions as may be required to effect the Plan, and shall execute such documents, as may be reasonable and necessary to consummate the Plan.

1.02 Manner of Payments: Payments to be made by the disbursing agents pursuant to the Plan shall be made by check drawn on a domestic bank from a domestic bank.

1.03 Cramdown: The Court may confirm the Plan even if the Class of Interest holders does not accept the Plan. In the event that the impaired Class of Interest holders fails to accept the Plan by adequate vote as described in Sections 1126 and 1129(a), the Debtors may request the Court to confirm the Plan in accordance with Section 1129(b) of the Code. Furthermore, to the extent that the Plan does not embody certain provisions setting forth the circumstances contemplated by Section 1129(b), the Debtors may amend or modify the Plan to include such provisions should it become necessary to confirm the Plan under cramdown.

1.04. Unclaimed Distributions: In the event that is the Debtors are unable to locate a holder of a Claim or Interest in order to make such distribution as herein provided, the

Disbursing Agent shall hold such distribution for the benefit of such Claim until all payments and transfers are made pursuant to this Plan, then such distributions or property shall be paid Pro Rata to the members of the last Class that the Disbursing Agents paid but did not completely and fully satisfy the Class members' Allowed Claims.

1.05. Documentation: The appropriate documentation for each transaction contemplated herein may be subject to the approval of the Court as requested.

1.06. Funding of the Plan:

At the Confirmation Hearing, the Court shall by confirming the Plan, satisfy the final condition necessary to allow the Asset Sale of substantially all of the Assets of the Estate, excluding the Causes of Action and the D&O Claims. The proceeds generated from the Asset Sale will be distributed or applied (as appropriate) in satisfaction of all Allowed (i) Administrative Expense Claims, (ii) Fee Claims, (iii) Priority Tax Claims, (iv) Priority Non Tax Claims, (v) the Vactronix DIP Claim, (vi) Secured Claims and (vii) Unsecured Claims. A Litigation Trust established on the Effective Date for the benefit of holders of Allowed Equity Interests as set forth in the Plan. Additionally, the Causes of Action, the D&O Claims and the Expense Fund Other Assets will be contributed to the Litigation Trust.

The Debtors are selling substantially all their assets pursuant to the Asset Sale authorized by the Court on June 10th, 2016. Pursuant to the Asset Sale, Vactronix is the stalking horse bidder. If Vactronix is the Purchaser, the Vactronix DIP Claim, the Assumed Secured Claims and the Assumed Unsecured Claims shall be deemed satisfied on the earlier to occur of (i) the Effective Date, or (ii) the date the Asset Sale closes, Vactronix shall pay Cash to the Disbursing Agent sufficient to pay the Allowed Administrative Expense Claims, the Allowed Fee Claims, the Allowed Priority Tax Claims, the Allowed Priority Non Tax Claims and all Allowed General Unsecured Claims, other than the Assumed Unsecured Claims and the claims of Equity Interest Holders (the "Consideration"). Within three (3) business days of the entry of a Final Order Allowing an Administrative Expense Claim, a Fee Claim, a Priority Tax Claim, a Allowed Priority Non Tax Claim or a General Unsecured Claim, Vactronix shall pay the Disbursing Agent the amount needed to satisfy such claim, less any amounts remaining from advances made under the Vactronix DIP Claim and not otherwise used by the Debtors pursuant to the approved budgets. Vactronix shall assume the Assumed General Unsecured Claims and satisfy each such Claim by written agreement with the holder of each Assumed General Unsecured Claim on terms approved by Vactronix and such claimant. To the extent, the final bid by Vactronix is in excess of its initial stalking horse bid, Vactronix shall pay the Overbid Proceeds to the Debtor on the Effective Date for distribution in accordance with the Plan.

If Vactronix is the Purchaser and acquires the Debtor's claims in the Harriman Case, Vactronix shall assume any and all of the Debtor's liability arising out of or relating to the Harriman Case, without limiting any non-Debtor party's liability for such claims, including applicable insurance policies.

Notwithstanding the foregoing, Vactronix shall not be required to satisfy any (i) claim arising from rescission of a purchase or sale of a security of the debtor or of an affiliate of the debtor or for damages arising from the purchase or sale of such a security, or for

reimbursement or contribution allowed under section 502 on account of such a claim, or (ii) any Claim under section 502(h) of the Bankruptcy Code.

Furthermore, a Litigation Trust established on the Effective Date for the benefit of holders of Allowed Equity Interests as set forth in the Plan. Additionally, the Causes of Action, the D&O Claims and the Expense Fund Other Assets will be contributed to the Litigation Trust.

1.07. Controversy Concerning Impairment: In the event of a controversy as to whether any Creditor(s) or Interest holders or classes of Creditors are impaired under the Plan, the Bankruptcy Court shall, after notice and hearing, determine such controversy. To the extent that the Court finds that a Class of Creditors or a Creditor(s) is impaired where designated as unimpaired, that Creditor or Class of Creditors may file a vote, notwithstanding other provisions, at the time of Confirmation. If determined to be unimpaired, the Creditor or Class of Creditors shall be deemed to accept the Plan as provided in Section 1126(f).

2. Feasibility of the Plan

This Plan is feasible as a result of the fact that, based upon current data, the Debtors will have cash available from the sale of their respective assets to pay the Creditors' Allowed Claims on the Initial Distribution Date and subsequent distribution dates in accordance with the provisions of the Plan and litigation trust. If Vactronix is the successful bidder for the assets, it has provided information to the Debtors' counsel and the Unsecured Creditors' Committee's counsel indicating that it has the funds available to pay all of the Allowed Administrative Claims, Allowed Secured Claims and Allowed Unsecured Claims that it is not assuming under the provisions of the Plan.

3. Retention of Jurisdiction

The Court shall retain jurisdiction of this Case pursuant to the provisions of Chapter 11 of the Bankruptcy Code, until final allowance or disallowance of all Claims, or to resolve all controversies affected by the Plan in respect to the following matters:

- A. To enable the Debtors or Revested Debtors to consummate any and all proceedings which it may bring prior to or subsequent to entry of the Order of Confirmation, to avoid or set aside the Order of Confirmation, or to avoid or set aside liens or encumbrances, to object to Claims or the allowance thereof, or to hear and determine pending litigation in the Court, or preference litigation, or to recover any transfers, assets or damages to which the Debtor may be entitled under the applicable provisions of the Bankruptcy Code or other federal, State or local law; and to hear and determine all related litigation, contested matters or adversary proceedings pending on Confirmation Date or properly and timely filed in the Court thereafter;
- B. To Classify, allow or disallow Claims, and direct distributions of funds under the

Plan by the Revested Debtors, and adjudicate all controversies concerning the Classification or allowance of any Claim or security interest against the Debtors' property or Property of the Estate, if any;

- C. To enforce the payment and performance of the Plan against the Debtors or against the Creditors (whether or not filing or holding Claims against the Debtors) or any Party In Interest;
- D. To hear and determine all Claims arising from the rejection of Executory Contracts or leases, and to consummate the rejection and termination thereof or with respect to the Debtors' Executory Contract, or application for determination, rejection or termination thereof having been filed prior to the entry of the Order of Confirmation, or filed in compliance with the Plan thereafter;
- E. To liquidate damages in connection with any disputed, contingent or otherwise unliquidated Claim as provided in the Plan or as provided in the Bankruptcy Code;
- F. To adjudicate all Claims to a security or ownership interest in any of the Debtors' property or Property of the Estate;
- G. To adjudicate all Claims or controversies arising out of any purchases, sales, transactions or conveyances undertaken by Debtors during the pendency of the proceedings or any Creditors after the Confirmation Date;
- H. To recover all assets and properties comprising Property of the Estate or of the Debtors under this Plan, wherever located;
- I. To hear and determine matters concerning State, local and federal taxes pursuant to §§505, 525 and 1146 of the Bankruptcy Code or otherwise;
- J. To hear and determine matters or controversies relating to the Debtors or any attorneys or professionals retained on behalf of the Debtors after the Confirmation Date; and
- K. To make, hear and determine such matters and enter such Orders as are necessary and appropriate to carry out the provisions of this Plan.

5. Modification of Plan

The Plan proponent may propose amendments or modifications to the Plan and Exhibits or the Exhibits incorporated in the Plan and attached to the Approved Disclosure Statement at any hearing on or before the Court's entry of the Order Confirming the Plan, with leave of the Court and upon notice to Creditors or parties as is deemed necessary by the Court. Either prior to or after the date of the Final Order approving the Approved Disclosure Statement, any modification is subject to Approval of the Court, and so long as the proposed modification to the

Plan or Exhibits to the Plan or Approved Disclosure Statement do not materially or adversely affect any Class of Creditors, or is made to remedy any defects, omissions or reconcile any inconsistencies in the Plan or Order Confirming the Plan in such a manner as may be necessary to carry out the purpose and intent of this Plan or any Class of Creditor(s) affected by the modification consent in writing, the Court shall approve such Modification.

6. General Information about the Claims Procedure

Procedures for Resolving Contested Claims

The Debtors, Revested Debtors or any Party in Interest may file with the Bankruptcy Court an objection to the Proof of Claim filed by any party or Claimant. Any objection must be in writing, must set out the name of the Creditor who filed the Claim (and any assignee), the dollar amount of the Claim and the character of the Claim. Each specific ground for objection or defense to the Claim shall be listed in a separate paragraph. Service of the objection shall be made upon the attorney of record for the Claimant (or the Creditor directly if not represented by an attorney), by serving a true and correct copy of the objection and shall be deemed complete upon mailing as set out in Bankruptcy Rule 9006(e). A certificate of service shall promptly be attached to each objection and shall comply with Local Bankruptcy Rule 9013(f).

If an Objection to a Claim is filed, the Creditor shall file a response to any such objection within twenty (20) days from the mailing date set out in the certificate of service for the objection. Responses may take one of two forms namely, a consent to the objection, or a non-consenting response. A non-consenting response shall state specific reasons for objection to each ground or defense, shall list the names and addresses of any and all witnesses to be called in support of the response, and shall include copies of all documents (including invoices, security documents and the like) relied upon by the non-consenting party to support allowance of the Claim or interest. Copies of such responses shall be served upon the Debtors, and attorneys for the Debtors. Failure to timely file a response shall result in a deemed consent to the objection, and upon the expiration of the 20-day period, the Court may enter an order without further notice of hearing. In the event a timely non-consenting response is filed, the Court shall set a hearing on not less than thirty (30) days' notice to the parties in accordance with Bankruptcy Rule 3007.

7. Debtors' Retention of Interest, Revesting of Property in Debtors, and Default Provision

The Revested Debtors shall retain their respective interest in the Debtors' assets (retained after the sale of the assets) under this Plan subject to payment of the distributions required by the Plan. Such assets include all Bankruptcy Code Chapter 5 causes of action held by the Debtors and all other causes of action and described in the Plan. The Debtors shall then contribute such causes of action to the litigation trust pursuant to the provisions of the confirmed Plan and the trust agreement.

Upon the Effective Date, the revesting of the title to all assets and properties whatsoever of the Debtors, sometimes referred to herein as "Property of the Estate," shall be free and clear of all Claims, liens, security and equitable interests, except as may be otherwise provided by, and

subject to the distributions required under this Plan. The Order Confirming the Plan shall be a judicial determination of the discharge of the liabilities of and claims against the Debtors, except only as may be otherwise provided for in this Plan or in the Bankruptcy Code.

In the event a default by either of the Revested Debtors occurs under the Plan, whether monetary or non-monetary, the affected Creditor shall provide written notice of such default to:

Eugene Sprague
18618 Tuscany Stone, Suite 100
San Antonio, Texas, 78258

AND

William B. Kingman
Law Offices of William B. Kingman, P.C.
4040 Broadway, Suite 450
San Antonio, Texas 78209

both by United States certified mail-return receipt requested, and by United States first class mail, postage prepaid. Thereafter, the Revested Debtors shall have thirty (30) days from the earlier to occur of: (i) the date of receipt of the written notice sent by certified mail, or (ii) the date of receipt of the written notice sent by first class mail to cure the default (For the purposes of the written notice by United States first class mail, postage prepaid, such notice will be deemed received five (5) days after depositing the same in the United States mail.). In the event the Revested Debtors do not cure the default within the thirty (30) day period provided herein, the affected Creditor shall be entitled to pursue its state law remedies without further notice or hearing before the Court.

Within fifteen (15) days of the date upon which the Revested Debtors make the initial distribution to all Creditors in Class 2 (such date being the date of the substantial consummation of the Plan), the Revested Debtors shall apply to the Bankruptcy Court for entry of a Final Decree in the Case. Pursuant to Section 350 and Bankruptcy Rule 3022, the Final Decree shall close the Case and make provisions by way of injunction or otherwise as may be equitable.

VI.
ALTERNATIVES TO THE PLAN

Although this Disclosure Statement is intended to provide information to assist in the formation of the judgment as to whether to vote for or against the Plan and although Creditors are not being offered, through that vote, an opportunity to express an opinion concerning alternatives to the Plan, a brief discussion of alternatives to the Plan may be useful. These alternatives include continuation of the Chapter 11 case, conversion to Chapter 7 for liquidation, dismissal of the proceedings or a Party in Interest's proposal of an alternative plan pursuant to §1121 of the Code. The Debtors, of course, believe the Plan to be in the best interest of Creditors and the Debtors. Thus, the Debtors do not favor any alternative to the Plan.

1. If this Chapter 11 proceeding continues without a confirmed Plan, there would be further delay in payments to Creditors.

2. The Debtors believe that a liquidation under Chapter 7 would not be in the best interests of all parties. As discussed in IV B above, the Debtors do not believe that the unsecured creditors would receive any distribution in a Chapter 7 proceeding.

3. If this case were dismissed, the rights of all creditors would be prejudiced. The Creditors who were able to pursue State law remedies against Debtors first would have an advantage over other Creditors. The dismissal would also create a large amount of litigation.

VII.

RISKS TO CREDITORS UNDER PLAN

In the event that the Plan is confirmed, the Debtors believe that the only reason why they could not perform its obligations under the Plan is if the proposed sale does not close. Therefore, barring some catastrophe outside of the control of the Debtors, the Debtors have and will have assets available to pay Creditors holding Allowed Claims at the closing of the sale and on the Initial Distribution Date and subsequent Distribution Dates pursuant to the provisions of the Plan.

VIII.

CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

The implementation of the Plan may have significant federal income tax consequences with respect to the Creditors and the Debtors. The following discussion summarizes such federal income tax consequences based upon the Internal Revenue Code of 1986, as amended (the "Tax Code") and the Treasury Regulations promulgated thereunder.

The Plan and its related tax consequences are complex. Treasury Regulations have not yet been promulgated with respect to many of the substantive provisions of the Tax Code that have been amended by legislation in recent years. The Debtors have not requested a ruling from the Internal Revenue Service, nor has it obtained an opinion of counsel. Accordingly, no assurance can be given as to the interpretation that the Internal Revenue Service will adopt. Further, the federal income tax consequences to any particular Creditor and the Debtors may be affected by matters not discussed below. There also may be state or local tax considerations applicable to each Creditor. THE DISCUSSION SET FORTH BELOW IS INCLUDED FOR GENERAL INFORMATION ONLY. BECAUSE THE TAX CONSEQUENCES OF THE PLAN MAY VARY DEPENDING UPON INDIVIDUAL CIRCUMSTANCES, EACH CREDITOR AND INVESTOR IS URGED TO CONSULT ITS OWN TAX ADVISOR AS TO THE CONSEQUENCES OF THE PLAN UNDER APPLICABLE FEDERAL, STATE, AND LOCAL TAX LAWS.

A. Federal Income Tax Consequences to Creditors

The federal income tax consequences of the implementation of the Plan to a Creditor will

depend in part on whether, for federal income tax purposes, the obligation from which a Creditor's Claim arose constitutes a "security." The determination as to whether an obligation from which a Creditor's Claim arose constitutes a "security" for federal income tax purposes is complex. It depends on the facts and circumstances surrounding the origin and nature of the obligation. Generally, corporate debt obligations evidenced by written instruments with original maturities of ten years or more constitute "securities." Although it appears that most of the Creditors' Claims do not constitute "securities," the Debtors express no views with respect to whether the obligation from which a particular Creditor's Claim arose constitutes a "security" for federal income tax purposes. Creditors are urged to consult their own tax advisors in this regard.

Exchanges by Creditors whose claims arise from obligations that do not constitute "securities," or whose claims are for wages or services, will be fully taxable exchanges for federal income tax purposes. Such Creditors who receive solely cash in discharge of their Claims, will recognize gain or loss, as the case may be, equal to the difference between (i) the amount realized by the Creditor in respect of its Claim (other than any Claim for accrued interest) and (ii) the Creditor's tax basis in its Claim (other than any Claim for accrued interest). For federal income tax purposes, the "amount realized" by a Creditor who receives solely cash in discharge of its Claim will be the amount of cash received by such Creditor.

Where gain or loss is recognized by a Creditor, the character of such gain or loss as a long-term or short-term capital gain or loss or as ordinary income or loss will be determined by a number of factors, including the tax status of the Creditor, whether the obligation from which a claim arose has been held for more than six months, and whether and to what extent the Creditor has previously claimed a bad debt deduction. The capital gains deduction for individuals and the alternate tax for corporate net capital gain has been repealed and capital gain is currently taxed to individuals and corporations at their respective maximum tax rates. However, the definitions of long-term and short-term capital gain or loss have not been repealed.

To the extent any amount received (whether cash or other property) by a Creditor is received in discharge of interest accrued on its Claim during its holding period, such amount will be taxable to the Creditor as interest income (if not previously included in the Creditor's gross income). Conversely, a Creditor will recognize a deductible loss (or, possibly, a write-off against a reserve for bad debts) to the extent any interest accrued on its Claim was previously included in the Creditor's gross income and is not paid in full.

IX.

PENDING LITIGATION, ACTIONS PERTAINING TO FRAUDULENT TRANSFERS, VOIDABLE PREFERENCES AND EQUITABLE SUBORDINATION

Advanced Bio Prosthetic Surfaces, Ltd., et al. v. Akin Gump Strauss Hauer & Feld, L.L.P., et al., No. 2014-CI-16776, in the 225th Judicial District Court, Bexar County, Texas

Ehrenberg, et al. v. Palmaz Scientific, Inc., et al. 162nd Judicial District, Dallas County, Texas, Cause No. DC-15-11994

Harriman v. Palmaz Scientific, Inc., et al.; 134th Judicial District, Dallas County, Texas, Cause No. DC-15-12314

All Chapter 5 causes of action under the Bankruptcy Code shall be retained by the Debtors after confirmation and conveyed to the Litigation Trust; however, Vacronix does not assume any liability associated with the prosecution of chapter 5 claims by the Litigation Trust.

X.

SUMMARY OF SIGNIFICANT ORDERS ENTERED DURING THE CASE

1) Orders Authorizing Debtors to Incur Post-Petition Debt

2) Order on Debtors' Motion (A) For Authority to Sell Assets Free and Clear of Liens, Claims, and Encumbrances; (B) To Assume and Assign Certain Executory Contracts, Leases and Licenses and Establish Cure Costs in Connection Therewith; (C) To Establish Procedures With Respect to Such Sale and the Assumption and Assignment of Executory Contracts and Leases, (D) To Consider Approval of Breakup Fee, and (E) To Shorten and Limit Notice (the "Motion to Sell")

3) Order Approving Plan Support Agreement

XI.

CONCLUSION

The materials provided in this Disclosure Statement are intended to assist you in voting for the Plan of Reorganization in an informed manner. If the Plan is confirmed you will be bound by its terms, so you are urged to review this material and make such further inquiries as you may deem appropriate and then cast an informed vote on the Plan. The Debtors believe that a reorganization of the Debtor pursuant to the Debtors' Plan will provide an opportunity for creditors to receive more than would be received by liquidation of assets under Chapter 7 of the Code or after the dismissal of these bankruptcy proceedings. **The Debtors urge the Equity Interest Holders to accept the Plan.**

Respectfully submitted on June 9, 2016.

**PALMAZ SCIENTIFIC, INC.,
ADVANCED BIO PROSTHETIC SURFACES, LTD.,
ABPS MANAGEMENT, LLC AND
ABPS VENTURE ONE, LTD.**

By: /s/Eugene Sprague
Eugene Sprague, authorized agent for each of the
Jointly Administered Debtors

CERTIFICATE OF SERVICE

Contemporaneously with the filing of the foregoing, I requested the noticing agent, UpShot Services, LLC, to serve a copy of the foregoing on the necessary parties the service list

in this case and who were not served through the ECF system. Debtors will supplement this certificate of service with a copy of an affidavit of service and such service list.

/s/ William B. Kingman

William B. Kingman

**TERM SHEET FOR CHAPTER 11 PLAN FOR PALMAZ SCIENTIFIC AND
AFFILIATED DEBTORS**

May 20, 2016

This term sheet ("Term Sheet") describes certain principal terms of proposed restructuring, to be implemented pursuant to a Chapter 11 Plan (the "Plan") and accompanying Disclosure Statement ("Disclosure Statement") to be proposed by Palmaz Scientific Inc. ("PSI"), Advanced Bio Prosthetic Surfaces, Ltd. ("ABPSL"), ABPS Management, LLC ("ABPSM") and ABPS Venture One, Ltd ("ABPSV," and, collectively with PSI, ABPSL and ABPSM, the "Debtors") in their chapter 11 cases (the "Chapter 11 Cases") pending under Jointly Administered Case No. 16-50552-cag-11 in the United States Bankruptcy Court for the Western District of Texas, San Antonio Division (the "Bankruptcy Court"). This Term Sheet is not intended to be the exclusive, or fully inclusive, list of terms and conditions. As a result, although the Plan shall be consistent in all material respects with this Term Sheet, the same shall be subject to definitive documentation.

**Treatment of Administrative Claims,
 Priority Claims and other Classes of Claims
 and Interests:**

Upon the effective date of the Plan (the "Effective Date"):

- Priority claims and secured claims (if any), shall be treated as required by section 1129 of the Bankruptcy Code;
- Unless a holder consents to a different distribution, allowed administrative claims and allowed unsecured claims shall be paid, in full, in cash; provided, however, that administrative claims for substantial contribution by Foster and the Hickman Investors (each as defined below) shall not exceed \$150,000. Notwithstanding the foregoing, Vactronix shall not be required to satisfy any claim arising from rescission of a purchase or sale of a security of the debtor or of an affiliate of the debtor or for damages arising from the purchase or sale of such a security, or for reimbursement or contribution allowed under section 502 on account of such a claim.;
- Other claims (if any) shall be classified and treated as the Debtors determine (but consistent with this Term Sheet); and
- All existing equity interests in the

	Debtors shall be canceled.
Acquisition of Intellectual Property and Other Assets:	<p>The Plan shall provide for the distribution of proceeds derived from a sale process (the "Sale") of substantially all of the Debtors' tangible and intangible assets, which shall include all third party claims and counterclaims pled and unpled, in the case of <i>Harriman v. Palmaz Scientific</i>, Cause No. DC-15-12314, pending in the 134th Judicial District in Dallas County, Texas <i>but such sale shall not include</i> any other claims, rights or causes of action held by the Debtors' estates, including chapter 5 causes of action (such excluded causes of action, collectively, the "Estate Causes of Action"). Vactronix shall be designated the "stalking horse" bidder and shall bid the obligations owing to it under the debtor-in-possession financing facility ("DIP Facility"), amounts advanced to pay for administrative expenses not included with the DIP facility, as well as any prepetition secured debt presently held by Dr. Julio Palmaz and/or Oak Court Partners ("OCP") that may be assigned to or acquired by Vactronix ("Prepetition Secured Debt"). The Prepetition Secured Debt includes the following promissory notes and related security documents:</p> <p>(a) Promissory Note payable to the order of <u>SPL</u> <u>INVESTMENT</u> Lennox Dallas Partners, LP with Allonge payable to the order of OCP, in the original principal amount of \$1,500,000 dated July 24, 2014.</p> <p>(b) Promissory Note payable to the order of Lennox Capital Partners, LP with Allonge payable to the order of OCP in the original principal amount of \$1,000,000 dated July 24, 2014.</p> <p>(c) Draw Note payable to the order of Julio Palmaz in an amount up to \$1,000,000 dated June 2, 2015.</p>

(d) Convertible Draw Note payable to the order of OCP in an amount up to \$4,500,000 dated June 16, 2015.

(e) Convertible Draw Note payable to the order of OCP in an amount up to \$3,000,000 dated September 17, 2015.

(f) Draw Note payable to the order of OCP in an amount up to \$1,500,000 dated December 30, 2015.

Vactronix's bid shall include cash sufficient to pay all allowed administrative, secured and unsecured claims in full. In addition, the Vactronix bid shall include a credit for the value of the claim of the State of Texas, the so-called "Boyle Settlement," and any other prepetition unsecured creditors who consent to have such claims satisfied other than in full in cash, with such claims being assumed and satisfied by Vactronix on terms agreed with such claimants (the DIP Facility, the Prepetition Secured Debt, the aggregate cash necessary to pay all allowed administrative secured and unsecured claims in full, and aggregate amount of the unsecured and other claims being satisfied shall collectively be referred to as the "Stalking Horse Bid"). For purpose of the Sale Procedures and the Stalking Horse Bid, the parties agree that the Stalking Horse Bid equals \$22,600,000.00. The Plan and bidding procedures to be approved by the Court (the "Bidding Procedures") in connection with the Sale shall provide for an auction process to allow for bids above the total amount of the Stalking Horse Bid, plus the amounts payable to Gerbsman Partners ("Gerbsman") pursuant to the *Unopposed Order Granting Debtors' Application to Employ Investment Banker Gerbsman Partners Nunc Pro Tunc* [Docket No. 181]. Any initial overbid must equal at least

	<p>\$23,100,000.00.</p> <p>To the extent that a bid in excess of the Stalking Horse Bid is received and Vactronix wants to increase its bid, such over-bid by Vactronix shall be in cash increments not less than the amounts specified in the Bidding Procedures, and if Vactronix is ultimately declared to be the successful bidder, all amounts in excess of the original Stalking Horse Bid shall be paid in cash on the Effective Date (along with all cash amounts necessary to pay all allowed administrative and unsecured claims, other than those for which the holders have agreed to a different distribution, in full). All cash received from any accepted bid in excess of the Stalking Horse Bid (the "<u>Overbid Amount</u>") shall be distributed seventy percent (70%) pro rata to non-Insider Equity Holders and thirty percent (30%) pro rata to Insider Equity Holders; <i>provided, however</i>, that the first \$350,000 shall be used as the Expense Money (defined below) to fund the Litigation Trust; <i>and provided further, however</i>, that no amounts shall be used to fund the Litigation Trust or paid to Equity Holders unless and until all allowed administrative claims and unsecured claims have been paid in cash in full (other than those claims for which the holders have agreed to a different distribution).</p> <p>The term "<u>Insider</u>" shall have the meaning set forth in section 101(31) of the Bankruptcy Code and shall, for the avoidance of doubt, include the Debtors' current and former officers and directors, their spouses, and entities owned or controlled by any of them who may hold equity interests in the Debtors.</p> <p>If, on or before June 3, 2016 and after reviewing the claims on file in the Chapter 11 Cases, Vactronix determines, in its sole discretion, that its potential purchase price for substantially all of the Debtors' assets exceeds \$22,600,000.00, it can withdraw its Stalking Horse Bid. In such event, the Debtors' assets will be sold at auction without a Stalking</p>
--	--

	Horse Bid and this term sheet shall be deemed terminated.
Validation of Prepetition Claims and Liens:	Only in the event of confirmation of a plan and this agreement not being previously terminated as result of Vactronix's withdrawal of its Stalking Horse Bid, the prepetition claims and liens held by Julio Palmaz and/or OCP shall be deemed valid, first priority, perfected liens on and in substantially all of the Debtors' assets, other than the Estate Causes of Action transferred to the Litigation Trust in connection with the Plan. Such claims against the Debtors shall be treated in a separate secured class, and the treatment shall expressly provide for a release of liens as to Estate Causes of Action transferred to the Litigation Trust. The DIP Facility shall also release any Estate Causes of Action transferred to the Litigation Trust.
Creation and Funding of Litigation Trust:	<p>On the Effective Date, the Litigation Trust shall be established pursuant to a Litigation Trust Agreement, for the purposes of administering Estate Causes of Action and making distributions to holders of Equity Interests in PSI. On the Effective Date, the Litigation Trust Agreement shall be executed and all other necessary steps shall be taken to establish the Litigation Trust and the beneficial interests therein.</p> <p>On the Effective Date, in accordance with section 1141 of the Bankruptcy Code, the Estate Causes of Action shall automatically vest in the Litigation Trust, free and clear of all liens, claims, interests and encumbrances, except to the extent otherwise provided in the Plan.</p> <p>The Litigation Trustee shall be a representative of the Debtors' estates pursuant to sections 1123(a)(5)(B) and 1123(b)(3)(B) of the Bankruptcy Code, and shall be vested with standing to prosecute, settle and otherwise administer all Estate Causes of Action transferred to the Litigation Trust, without the need for Bankruptcy Court approval or any other notice of approval, except as set forth in</p>

the Litigation Trust Agreement. The Litigation Trustee shall be exempt from giving any bond or other security in any jurisdiction.

The assets of the Litigation Trust (the "Litigation Trust Assets") shall consist of (i) \$350,000 to be funded on the Effective Date either by Vactronix, or from the Overbid Amount (the "Expense Money"), (ii) all Estate Causes of Action, (iii) the Contributed Interest defined below), and (iv) all of the proceeds thereof.

Litigation Trust beneficiaries shall be the existing equity holders of the Debtors.

The initial trustee of the Litigation Trust (the "Litigation Trustee") shall be chosen by John B. Foster ("Foster") and the Hickman Investors,² and shall be set forth in the Plan. The responsibilities and governing terms of the Litigation Trust and the Litigation Trustee shall be specified in the Litigation Trust Agreement.

If Vactronix funds the Expense Money, then Vactronix shall be reimbursed therefor, as set forth below.

Dr. Palmaz shall assign and contribute to the Litigation Trust his personal interest (the "Contributed Interest") in and to any recovery in the action captioned *Advanced Bio Prosthetics Surfaces Ltd. v. Akin Gump Strauss Hauer & Feld*, Cause No. 2014-CI-16776 pending in the 225th Judicial District in Bexar County, Texas (the "Akin Gump Case").

Jason Davis and the firm of Davis & Santos and Andy Taylor and his firm of Andy Taylor & Associates, P.C. shall not be disqualified from seeking to represent the Litigation Trust in the Akin Gump Case, with the Litigation Trustee retaining full discretion and authority to employ and retain professionals as he or she sees fit, in the exercise of his or her fiduciary

² The "Hickman Investors" are, collectively, Brad Hickman, Bradley Hickman, Jr., Clifton Hickman, Margaret Lane, Brenda Kostohryz, and Keely Kostohryz.

	duty.
Litigation Trust Distributions:	<p>Distributions from the Litigation Trust shall be made as follows:</p> <p>With respect to any proceeds from chapter 5 causes of action and litigation or causes of action asserted against the Debtors' present or former directors and officers ("<u>D&O Litigation</u>"), such proceeds shall be distributed pro rata to non-Insider Equity Holders.</p> <p>With respect to any proceeds recovered from <i>Advanced Bio Prosthetics Surfaces Ltd. V. Akin Gump Strauss Hauer & Feld</i>, Cause No. 2014-CI-16776 pending in the 225th Judicial District in Bexar County, Texas, such proceeds shall be distributed <u>FIRST</u>, to Vactronix to repay the Expense Money, to the extent the Expense Money was funded by Vactronix and not from the Overbid Amount and <u>SECOND</u>, eighty-five percent (85%) pro rata to non-Insider Equity Holders and fifteen percent (15%) pro rata to Insider Equity Holders.</p>
Substantial Contribution Claim for Foster and the Hickman Investors:	<p>Provided that all administrative claims, secured claims and unsecured claims have been paid or otherwise satisfied in full, the Foster and Hickman Investors shall have an allowed substantial contribution claim, pursuant to section 503(b)(3)(D) of the Bankruptcy Code, for the reasonable legal fees incurred by Foster and the Hickman Investors in connection with the Chapter 11 Cases, in an amount not to exceed \$150,000 in the aggregate, subject to Court approval; <i>provided, however</i>, that the Committee, the Debtors, Vactronix, OCP, Dr. Palmaz nor any of their affiliates or agents shall object to the same."</p>
Releases and Exculpation:	<p>The Plan shall contain releases and exculpations for Vactronix, all non-Insider equity holders, OCP, Mrs. Palmaz individually, Dr. Palmaz individually and Dr. Eugene Sprague, unless a party entitled to vote on the Plan specifically opts out of such releases by</p>

	checking a box on the ballot provided in connection with voting on the Plan; <i>provided, however</i> , that there shall be no release or exculpation for criminal liability, gross negligence or willful misconduct. Regardless of the foregoing release and exculpation, Dr. Palmaz and Dr. Sprague may nonetheless be named in any D&O Litigation commenced by the Litigation Trustee as may be necessary to enable the Litigation Trustee to plead and recover under and pursuant to the director and officer liability insurance policies; <i>provided that</i> no recovery on any claims asserted in the D&O Litigation may be sought from any assets of Dr. Palmaz or Dr. Sprague. The Plan's exculpation and release provisions shall be mutually satisfactory to Vactronix, OCP, the Hickman Investors, Foster and the Debtors.
Other Provisions:	The Plan shall contain such other and further provisions as are customary, and as may be agreed upon among Vactronix, OCP, Foster and the Hickman Investors, the Committee and the Debtors, with consent not to be unreasonably withheld.

AGREED:

LAW OFFICES OF WILLIAM B. KINGMAN, P.C.

4040 Broadway, Suite 450

San Antonio, Texas 78205

Telephone: (210) 829-1199

Facsimile: (210) 821-1114


Email: bkingman@kingmanlaw.com

By: /s/William B. Kingman

William B. Kingman, Bar No. 11476200

COUNSEL FOR DEBTORS

THE DEBTORS

By: 
Eugene Sprague
Sole Director and Responsible Party

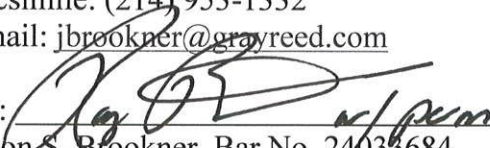
ANDREWS KURTH, LLP
1717 Main Street, Suite 3700
Dallas, Texas 75201
Telephone: (214) 659-4400
Facsimile: (214) 659-4401
Email: michellelarsen@andrewskurth.com

By: /s/ Michelle V. Larson w/ permission
Michelle V. Larson, Bar No. 00796928
**COUNSEL FOR OFFICIAL COMMITTEE OF
UNSECURED CREDITORS**


VACTRONIX, INC.

By: 
John Asel,
President

GRAY REED & MCGRAW, P.C.
1601 Elm Street, Suite 4600
Dallas, Texas 75201
Telephone: (214) 954-4135
Facsimile: (214) 953-1332
Email: jbrookner@grayreed.com

By: 
Jason S. Brookner, Bar No. 24035684
COUNSEL FOR HICKMAN INVESTORS

LAW OFFICES OF RAY BATTAGLIA, PLLC
66 Granburg Circle
San Antonio, Texas 78218

EXECUTION VERSION

Telephone: (210) 601-9405

Facsimile: (210) 855-0126

Email: rbattaglia@outlook.com

By: 

Raymond W. Battaglia, Bar No. 01918055

COUNSEL FOR JOHN B. FOSTER

<u>Palmaz Scientific, Inc.</u>				
D&O Insurance Premium Summary and Extended Reporting Period Summary				
		2015	2015	
<u>Limit</u>	<u>Retro Date</u>	<u>Carrier</u>	<u>Coverage</u>	<u>Premium</u>
\$2,000,000 primary	7/28/2010	Monitor (Admiral)	D&O and EPL	\$21,247
\$3,000,000 excess of \$2,000,000	7/28/2010	Argo (Colony)	D&O only	\$26,752
\$5,000,000 excess of \$5,000,000	7/28/2011	AWAC	D&O only	\$34,096
\$5,000,000 excess of \$10,000,000	7/28/2011	Federal	D&O only	\$27,000
\$5,000,000 excess of \$15,000,000	7/28/2014	Hiscox	D&O only	<u>\$21,616</u>
				\$130,711
Extended Reporting Period				
	<u>6 year (290%)</u>	<u>Expires</u>		
\$2,000,000 primary	\$61,616	3/4/2022		
\$3,000,000 excess of \$2,000,000	\$77,581	3/4/2022		
\$5,000,000 excess of \$5,000,000	\$98,878	3/4/2022		
\$5,000,000 excess of \$10,000,000	\$78,300	3/4/2022		
\$5,000,000 excess of \$15,000,000	<u>\$62,686</u>	3/4/2022		
	\$379,061			
Note:				
ERP premium is 100% earned. Thus, it must be paid in full and cannot be cancelled.				
Unearned premium on current coverage will be returned following inception date of ERP.				

EXHIBIT "C"

Unsecured Creditors	Undisputed (Paid)	Disputed (Reserved)	Cash Requirement
American Alternative Insurance Corporation	\$ -	\$ 20,000.00	\$ 20,000.00
Alpharad GmbH	7,835.00		7,835.00
Advanced Chemical Transport	9,408.47		9,408.47
AT&T-California ending # 0491	591.67		591.67
AT&T-Dallas ending # 7498	232.86		232.86
Chansu Consulting, LLC	18,539.84		18,539.84
City of Fremont	750.64		750.64
Clark Industrial Supply Inc.	1,012.95		1,012.95
Conan Machining	6,290.78		6,290.78
Elevate Systems	3,411.36		3,411.36
FEI Company	7,145.91		7,145.91
Gene Michal	5,550.00		5,550.00
GoEngineer Inc.	6,249.10		6,249.10
H2O Precision	239.80		239.80
Incyte Venture Management	65.84		65.84
Marquee Pest Management, Inc.	55.00		55.00
MicroTek Finishing, LLC	3,300.00		3,300.00
NPI Springs	-		-
Pacific Gas & Electric Company	11,783.62		11,783.62
Pinnacle Technical Resources, Inc	143,160.48		143,160.48
Principal Financial Group	3,512.06		3,512.06
Straysis	-		-
Sunstate Equipment Co.	419.59		419.59
Synergistix	51,500.00		51,500.00
UPS	82.05		82.05
Valley Relocation & Storage	6,142.91		6,142.91
Veronica Calzada	3,300.00		3,300.00
William Perez	-		-
Scott Carpenter	7,870.27		7,870.27
Edward Cydzik	9,769.76		9,769.76
David Xu	21,427.99		21,427.99
Silvio Ouchi	11,825.13		11,825.13
Li Hou	4,641.14		4,641.14
Michael Poor	614.54		614.54
Thomas Mason	2,074.41		2,074.41
Efrain Velasquez	11,201.42		11,201.42
Miguel Marquez	16,083.96		16,083.96
Lawrence Alvarez	315.38		315.38
William Perez	8,351.24		8,351.24
Susie Carpenter	5,396.52		5,396.52
Giang Vo	2,917.74		2,917.74
Jay Sharma	3,248.16		3,248.16
Jesse Perez	2,619.54		2,619.54
Kernix Ly	5,827.70		5,827.70
Maria Martinez	1,896.87		1,896.87
Bank Direct Capital Finance, LLC	44,639.08		44,639.08
Stratasys, Inc.	13,633.52		13,633.52
Internal Revenue Service	-	10,845.60	10,845.60
Alemeda County: Donald R. White	6,388.23		6,388.23
Leigh Rinearson	100,000.00		100,000.00
TOTALS	\$ 571,322.53	\$ 30,845.60	\$ 602,168.13